

BEFORE THE
UNITED STATES SENATE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

SUBCOMMITTEE ON SURFACE TRANSPORTATION

AND

MERCHANT MARINE

HEARING ON RAIL SHIPPING

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Statement of

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To the members of the Senate Subcommittee on Surface Transportation and Merchant Marine of the Committee on Commerce, Science, and Transportation:

I thank Senators Breaux and Smith for inviting me to speak before your subcommittee today on my experiences in shipping via railroad. I have also prepared a more detailed summary and paper that I wish to have entered into the record of this hearing.

My name is Dennis Williams, and I am the Manager of Transportation Services for Roseburg Forest Products Company, a major manufacturer and shipper of forest products, whose headquarters are located in Dillard, Oregon, with facilities located in southwestern Oregon and northern California. We have shipped each year approximately 5,000 carloads of inbound logs and veneer and more than 12,000 carloads of finished product outbound to our customers located throughout the United States and eastern Canada. All RFP facilities are located on the Central Oregon & Pacific Railroad, a 450 mile-long switching railroad that is contractually limited to interchanging traffic to the Union Pacific Railroad. Roseburg Forest is a captive shipper.

My career in industrial traffic management began more than 34 years ago; thus I am really familiar with the intricacies of the pre-Staggers regulatory environment. As a member of the National Industrial Traffic League, I actively participated in the debate surrounding formulation of the Staggers Rail Act of 1980. I supported the principles of Staggers then, and I support them now. Competition, in an appropriate quantity, was and is an effective replacement for unduly burdensome regulations. However, the reduction of the number of Class 1 railroads through acquisition and merger has changed the quantity and the nature of competition envisioned by Staggers.

Railroads enjoy a statutory franchise exclusivity coupled with pricing and service freedom enjoyed by no other industry in the nation, a statutory recognition of the private property nature of railroads and the importance of the transportation service they provide to the economic well-being of our nation. This combination of freedom and protection is a special situation that is sufficiently different from the business situations faced by customers of the railroads, particularly in the immediacy of consequences to prices and actions, that railroad customers have been, and will continue to be, concerned with the railroad industry. In no event does anyone desire the return to a burdensome regulatory scheme.

Our business is vitally dependent upon railroads to move our products from our plantsites to our customers while preserving their competitive value. Thus, we need reasonable transportation service at reasonable rates in order to survive. We are a captive shipper to Union Pacific, and our experience with railroad transportation is

generally favorable. Although railroads tend to use their post- Staggers pricing freedom to build economic walls around their properties against their competitors, they have also, at times, demonstrated strong partnership with their customers, forming a vital link between our customers and us. We find this particularly true with UP and NS, although they are not entirely consistent. We enjoy large segments of our business as the direct result of our Class 1 railroad partners making a special effort in pricing or service to help us establish and maintain them. At the same time, Class 1 railroads are undeniably self-focused and pay real attention to the needs of their customers only with great difficulty. As railroads have cut their internal costs, they have forced many of the functions they formerly provided back onto customers, functions such as car supply, car cleaning, and rate maintenance. Important interfaces, particularly representation, between railroads and their customers are becoming less effective.

This inconsistency and continuing inward-focus are symptoms that insufficient competition exists within the railroad industry and between railroads and other modes. In the current semi-deregulated environment, the willingness of railroads to vigorously compete is largely a matter of choice and sound management and is no longer forced by the presence of a large number of competitors. For a railroad to state, as all have, that they must charge higher rates to captive shippers in order to enhance revenue levels that are depressed by the lower rates they must give to customers who are not captive is a very clear symptom of a weakened sense of competition. For a railroad customer to avoid expressing criticism of its serving railroad because it fears retaliation from that railroad is a sad statement of the relationship the railroad has with its customers.

The shipping public and railroads are at a critically important point. I do not advocate new regulations that would impose more competition upon railroads. I believe that existing regulations, such as those providing for enhancement of competition through reciprocal switching and the ongoing negotiations regarding the elimination of paper barriers with short line connections, are sufficient. I believe that both private and public negotiation between railroads and their customers, conducted in the spirit of mutual benefit and mutual self-interest can overcome the primary disagreements that exist today. Railroads must, however, demonstrate their willingness to compete in order to retain both the exclusivity of franchise and pricing freedom they now enjoy. They must clearly state what they will do for their customers and prepare to be held accountable. Likewise, railroad customers must vigorously bring the railroads into their businesses. They must clearly inform railroads what they need, obtain the railroads' commitment to meet those needs, and then hold the railroads accountable. If these things do not happen, railroad customers, including Roseburg, will demand and impose new regulations that will protect the interests of the shipping public.

Thank you for your attention.